Spending Round 2013

Submission from London Councils

Submitted 8 May 2013

LONDON COUNCILS

Introduction

London Councils represents London's 32 boroughs and the City of London.

London's local authorities recognise the government's twin objectives of deficit reduction and economic growth. We believe that the forthcoming announcement of the Spending Round 2013 signals a timely opportunity to re-assess how we can best contribute to these goals.

While we acknowledge that the Spending Round will focus primarily on 2015-16, it is also important to look at the period beyond that.

In this context, it is worth reflecting that local government has already made a significant contribution to deficit reduction. Core government funding will have fallen by close to £10 billion nationally or 35 per cent in real terms by the end of 2014-15 against a backdrop of increased demand for services from an ageing population and ever more complex demography. And Census 2011 has shown that London's population, in particular, has been undercounted and underfunded for years.

At the same time, local authorities have been mindful of the impact of the economic downturn on council tax payers and the most vulnerable within our communities. Between 2010-11 and 2013-14, council tax charges in London fell, on average, by close to £100 or 10 per cent in real terms.

Despite the much reduced public finance environment, local government is acknowledged as the most efficient part of the public sector and has risen to the current challenges in ways that other sections of the public sector appear unable to do, namely in controlling the costs of welfare and employment support. Our authorities are also actively exploring the potential for further ways of getting the maximum impact from the wide range of public services, including health and the police, in their localities. These initiatives offer the promise of a better way of delivering outcomes for residents and demonstrate the vital role local authorities can play.

There is, however, frustration with the wasted opportunities and ineffective use of resources caused by Whitehall continuing to think and operate in silos. The lack of real devolution to London local government is actively constraining our ability to fully meet the aspirations of our residents, drive local economic growth and increase prosperity.

London Councils welcomes Lord Heseltine's recent report and his assertion that *'local leaders are best placed to understand the opportunities and obstacles to growth in their communities'*[1].

1 No Stone Unturned in Pursuit of Growth - Lord Heseltine Review (2013)

With this in mind, this submission sets out a range of changes that London's boroughs are calling for to accelerate economic growth, contribute to the deficit recovery and shape better public services in partnership with central government, the Mayor of London and other partners.

London Councils calls for:

- Greater local leadership for skills provision and employment support schemes
- The unnecessary cap on Housing Revenue Account borrowing to be removed
- London Local government to have full discretion over local taxes, fees and charges
- Further exploration, in the light of Spending Round decisions, with government on the detail of a wider framework for accelerating growth through devolution to London government.

This submission reflects a number of the key themes debated over recent months by the London Finance Commission, chaired by Professor Tony Travers. The question of how greater financial devolution and autonomy can be a springboard for growth, jobs and necessary infrastructure in the capital will be at the heart of the Commission's final report, published later this month. These are themes which also run through this submission.

London local government has made a significant contribution to deficit reduction

At the beginning of the Spending Review period, local government faced a disproportionately higher level of savings than other sections of the public sector – 28 per cent in real terms over the four year period compared to 8 per cent on average for central government departments.

Since the Spending Review announcement in October 2010, there have been a number of incremental cuts to local government funding, which has meant that by 2014-15, funding for the sector will have reduced by £9.6 billion or 35 per cent in real terms – a significant increase on the original reduction of 28 per cent.

It has long been recognised that the size and scale of the financial challenge raises significant questions about the future size, role and shape of the sector. This has required some tough decisions. Since 2010, local government has seen its headcount reduce by 389,000 (13 per cent) in contrast to 151,000 (5 per cent) within central government[2].

Local government has continued to demonstrate high levels of performance and has been repeatedly asked to deliver cuts on behalf of other Whitehall departments. Council tax benefit localisation (circa £420 million), the Social Fund (circa £96 million) and Children-on-Remand (circa £19 million) are three areas where local authorities have been asked to take on additional responsibility and control costs. They are also all areas where central government departments have repeatedly failed to have an impact.

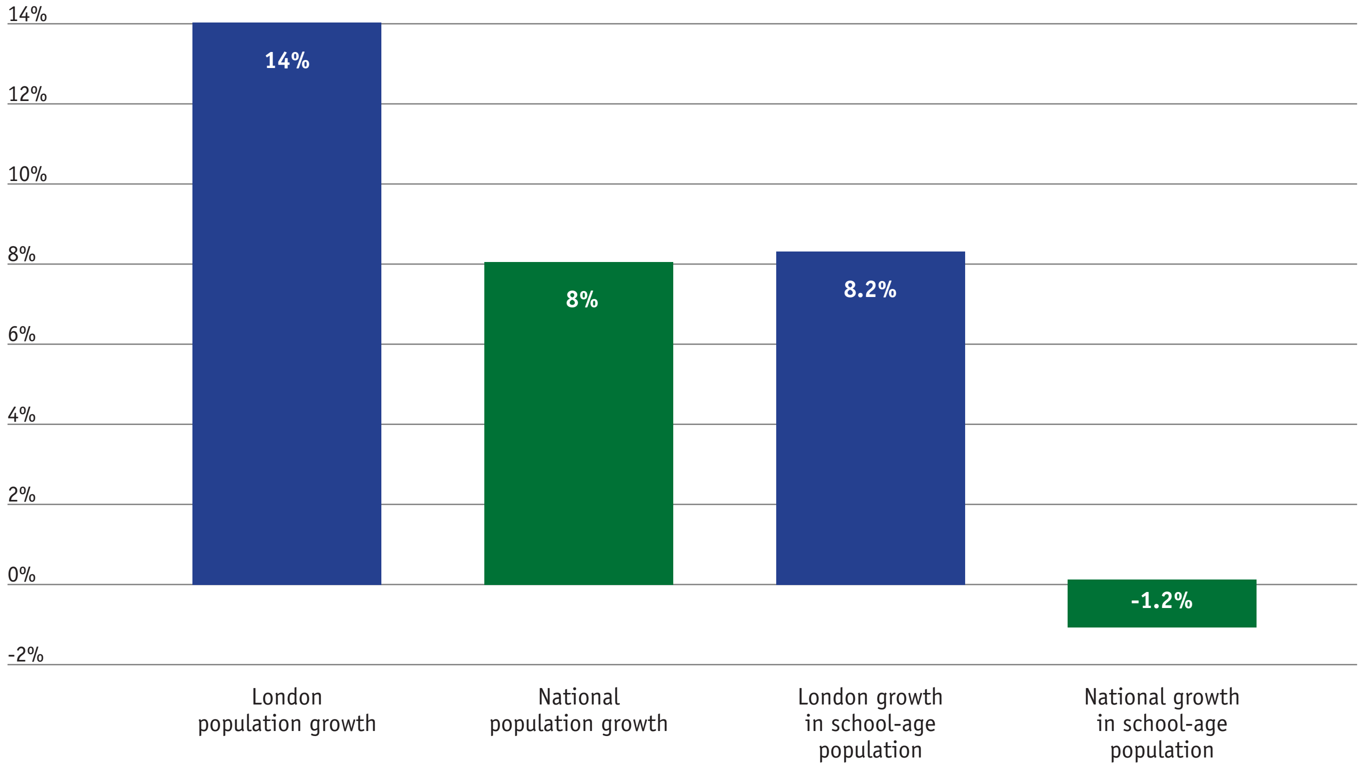
Even more worryingly, these are volatile areas of spend which are demand-led and subject to wider economic performance. As such, central government is not only transferring cost and responsibility, but significant financial risk too. It must be recognised that these ‘cost-shunts’ run the risk of having a significant knock-on impact on resources available for other vital services such as social care. Those three policy changes identified above represent a reduction in available resources of over £500 million alone.

2 Public Sector Employment, Q4 2012 - Office for National Statistics (2013)

London local government faces rising pressure on services

Against this backdrop of reduced resources, London's population continues to present unique challenges to public service provision, applying acute upward pressure to service costs. The combination of inflation and costs driven by population and demography means that total net revenue expenditure in London will face an increased cost pressure of over £0.7 billion (+8 per cent) by 2020.

Figure 1: **London's population growth 2001-2011**



Some key headlines worth noting[3]:

- London's population is growing at a faster rate than any other region in England. Between the 2001 and 2011 censuses, its population grew by 14 per cent (1,002,000) compared to the national average of 8 per cent.
- By 2020, London's population will exceed 9 million residents. Within the overall growth profile, those aged 65 or over are set to grow disproportionately faster than any other age cohort (19 per cent).
- For the 0 to 4 age cohort, Census 2011 showed that London has seven of the 10 local authorities with the highest proportions of preschool children nationally with 11 boroughs seeing growth of over 30 per cent during this 10–year period.

3 GLA Intelligence Updates '2011 Census results: London boroughs' population by age and sex (2012) and GLA Intelligence Update 'GLA 2012 Round Population Projections' (2013)

- London's school age population grew by 107,000 at a rate of 8.2 per cent - the fastest regional rate and in stark contrast to the national picture where this cohort fell by 1.2 per cent.
- Looking ahead, birth rates in London are set to rise through to 2016 and to remain above 2011 levels for the foreseeable future. By 2020, London's population between 0 and 15 will have grown by 207,000 (13 per cent).

Population growth will place considerable pressure on the full range of local authority services and the capital's infrastructure. It is worth also noting that official forecasts have historically underestimated London's population so arguably, the full extent of the pressure faced will be greater than this. However, it is beyond doubt that these estimates raise crucial questions about the form and level of local authority funding, particularly within social care and education. Services are also being accessed by a population with increasingly complex demography. A range of factors are at play, including:

- **Mobility:** London has an inherently mobile and changing population. In 2011, London had approximately 70,000 short-term residents (STRs) – over a third of all short-term residents in England and Wales. In London, this translates into 84 STRs per 10,000 usual residents compared to the ratio of 35 STRs per 10,000 in England and Wales[4].
- **Ethnicity:** London continues to be the most ethnically diverse region in the country – more than one in three usual residents in London are non-UK born with London boroughs accounting for 18 of the top 20 local authorities for ethnic diversity[5].
- **Language:** London has the highest percentage of households containing a usual adult resident whose main language is not English (26 per cent) with nine of the top 10 linguistically diverse local authorities in London[6].
- **Families and Households:** As recently stated by ONS, *'compared to all other English regions and Wales, London is distinct'*[7]. It has a higher proportion of its adult population that are single or in a civil partnership, London also had the highest proportion of lone parent households with dependent children and the highest proportion of families with at least one dependent child.
- **A dysfunctional housing market:** With 240,000[8] households living in overcrowded conditions, 90 per cent of London's housing stock built before 1991[9], and new housing supply meeting housing need in only six of the last 20 years[10], London has the most overcrowded households in the UK, living in the oldest homes, where the market is not delivering sufficient new homes to match current and future demand.

While the diverse and changing nature of local communities is to be celebrated, their complex nature raises important questions about the design and delivery of public services. Boroughs are mindful that local services will need to change and evolve to ensure that they continue to meet the aspirations and needs of local communities.

---

4 Non-UK Born Short Term Residents in England and Wales 2011 - Office for National Statistics (2013)
5 2011 Census: Key Statistics for England and Wales, March 2011, Office for National Statistics (2013)
6 2011 Census: Key Statistics for England and Wales, March 2011, Office for National Statistics (2012) and GLA Intelligence Update '2011 Census Snapshot: Main Language' (2013)
7 Families and Households in England and Wales 2011, Office for National Statistics (2013)
8 English Housing Survey (2012)
9 Housing in London - The evidence base for the London Housing Strategy (2012)
10 Mayor of London's Housing Taskforce (2011)

The pursuit of growth – London has a crucial role

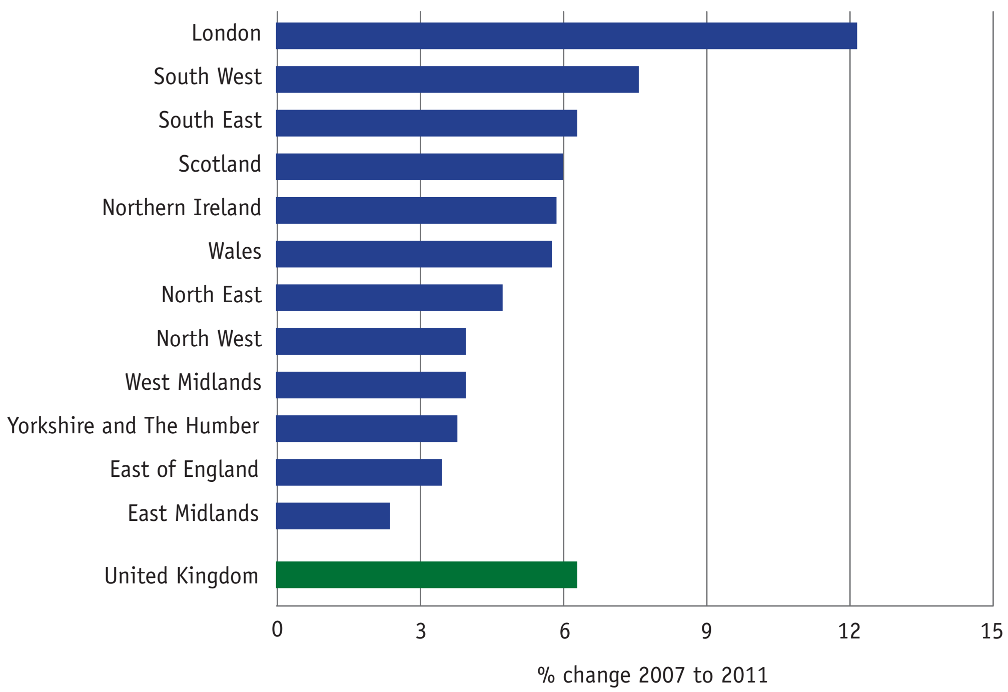
It is important to recognise the unique position of London within the UK economy and its role in promoting economic growth. As Lord Heseltine in his review, 'No Stone Unturned in Pursuit of Growth' points out,

'London is unique and a national asset of incalculable value. Every policy should encourage it on'.[11]

Over recent years, London's economic performance has made a significant and positive contribution to the national finances. In 2011, London provided 22 per cent of the UK's total Gross Value Added (GVA) at around £282,971[12] million and its strong performance is part of an on-going trend. From 2007 and 2011, the ONS stated:

'London's nominal output has risen faster than other regions; its employment and unemployment rates have fared better than other regions; it has seen a larger growth in its active business stock; it has seen an increase of over 250,000 jobs whilst most other regions have seen a decline; and the average incomes of its residents have increased when compared to residents elsewhere in the UK... The net effect is that from 2007 to 2011 London's economy (GVA) grew by a nominal 12.4% compared to between 2.3% and 6.8% across other UK regions.' [13]

Figure 2: **Growth in nominal GVA, 2007 to 2011**



11 No Stone Unturned in Pursuit of Growth - Lord Heseltine Review (2013)
12 Regional Growth Value Added (income approach), December 2012 - Office for National Statistics (2012)
13 Regional Economic Indicators - Office for National Statistics (2013)

Even in the face of the significant global downturn, independent research consistently shows that over time, London contributes more to the UK public finances than it receives through its share of public spending.

While it is important to acknowledge London's key role in securing further economic growth, London Councils is very mindful of London's position within the wider national economy. London's growth supports, funds and drives the UK economy, but we do not believe that economic success in London should be at the expense of other regions. London boroughs, in conjunction with the Mayor of London and others, play a crucial role in supporting the conditions to ensure London's economic performance. Armed with a strong democratic mandate, they are best placed to provide strategic oversight to some of the key drivers of growth (e.g. skills, employment support, housing and transport investment). In order to fully realise these aspirations, boroughs will require additional powers and flexibilities. London Councils believes that these powers and flexibilities can make a major contribution to better and more cost effective prevention and better tailored services.

London Councils' call for change

London Councils has consistently argued that greater fiscal autonomy and freedom for London local government will enhance outcomes for local communities. We recognise that the financial landscape is changing with the funding relationship between central and local government moving from one based on centrally allocated grants to one based upon concepts of financial incentive, underpinned by risk and reward. Policies such as New Homes Bonus and Business Rates retention signal a funding future in which local authorities will rely less on direct grants; indeed, London Councils' analysis suggests that by 2019-20 funding for London's boroughs through direct government grants will reduce by around 80 per cent or more (£6.39bn in 2010-11 to £1.36bn by 2019-20).

Greater fiscal autonomy for London, and London's boroughs in particular, is vital to enable long term planning, management and investment of resources that will be required to promote growth and tackle some of the entrenched, complex issues that our communities face. Current short term grant funding via central silos is inefficient and insufficient to meet the needs of London's diverse communities.

Business Rates Retention

London Councils fully supports the local retention of business rates and recognises the importance of clear and strong financial incentives to promote local growth. It is only right that local authorities see a financial benefit from committing resources and managing the associated risk of investing in infrastructure, improving the public realm, attracting new businesses and regenerating under-used sites.

However, there is considerable frustration with the system as currently constructed. It fails to deliver a strong and clear incentive mechanism and the size of the central share (50 per cent) means that local authorities remain in a similar position to that prior to the reforms to the finance system – i.e. at the mercy of central government decisions regarding funding priorities.

London Councils welcomes government's ambitions to increase the size of the local share over time, but requests that these actions are accelerated so that London local government has clear and strong financial incentives and rewards for delivering economic growth for its local communities.

Council Tax

The UK has the most centralised taxation system in the world. The extent of Whitehall control over council tax is bringing its future as a viable 'local' tax into question. London Councils believes that for Council Tax to remain viable as a tax base in the future decisions must be made by those with the local democratic mandate to represent, and answer to, their local communities.

Despite the clear pressure on local authority funding, London local government has been very mindful of the impact of the economic downturn on local residents and the tax burden. Over the course of the current Spending Review period, council tax levels have, on average, reduced by almost £100 (10 per cent) in real terms.

Against this backdrop of sound financial management and discipline, **London Councils believes that the government should remove the requirement for council tax referendums.** It is simply a form of council tax capping by another route. When government amends corporation tax or income tax thresholds, there is no requirement to hold a referendum. Yet, democratically elected members with a local democratic mandate are expected to. This is a clear inconsistency.

In line with its democratic mandate, **London local government should have the freedom and flexibility to set council tax discounts locally** without central government proscription.

Capitalisation

As discussed above, London boroughs must have greater fiscal autonomy to enable long term and effective planning, management and investment of resources. **London Councils believes that local government should have the freedom to capitalise one-off revenue costs without needing government approval and without a reduction in local government control totals.** When capitalisation takes place, local authorities fund these costs themselves with no financial support from government. Despite this, government reduces the overall local government control total by a corresponding amount to reflect this provision. There is no strong logic to this approach other than to comply with complex government accounting rules and its definition of public sector debt.

Local authority borrowing is also undertaken within the Prudential Code framework and we believe that this should deliver the confidence required by HM Treasury.

Housing Investment

In London, demand for housing has long outstripped housing supply and, over time, this demand will increase further as a result of London's growing population. London needs to build at least 40,000[14] homes every year to keep pace with demand. Yet in 2010-11, there were just 19,860 new homes built in the capital. The mismatch in housing demand and supply will place increasing pressure on existing housing stock, result in rising levels of homelessness, drive up the number of people in temporary accommodation and increase levels of overcrowding. All of which will have a significant impact on London's economy in terms of its ability to attract future investment and increase employment.

The scale of the projected housing shortfall has three broad implications for future policy:

Firstly, the depth and scope of the housing challenges facing London can only be resolved by the adoption of a long term strategic approach to housing supply that enables the adoption of more ambitious business models for delivery by the public and private sectors.

This is particularly relevant in the context of private sector development. It is crucial to create a viable private investment market – one that is stable, sustainable and has moved away from short-term strategies. We believe that there will be an important role for local authorities in supporting an increase in private sector capacity.

The length and nature of house building contracts will be a key determinant. Long term relationships can provide stability and surety, driving down financing costs and reducing the business risk of expanding delivery capacity.

The planning process is a key component of the construction process and an area where there is scope to improve the speed and quality of the experience for both the developer and the local authority.

14 Meeting Londoners' housing needs - Investing in housing infrastructure - London Councils (2013)

The Montague Report and its recommendations on planning permission for build to rent may offer some potential for gain. Further opportunities may arise from the creation of a more responsive framework for planning fees – further detail on this is provided within the section on 'Local Authority Fees and Charges'.

Secondly, it will be important to ensure that land and financial resources from all key stakeholders in London, including the Treasury, the Mayor, the GLA, London boroughs and other public and private sector land owners, work together to maximise their impact.

Consideration needs to be given to underutilised land and property and the extent to which incentives can be introduced to encourage faster and more development.

One element of this strategy could be to address unfocused market speculation. Currently 45 per cent of all land purchases in London are by organisations that do not build homes. Additionally, there is evidence of land banking with resultant speculative pricing that crowds out viable developments[15].

Of course within London, the public sector is a significant property owner and a more joined-up approach to government land and property would not only allow a more effective use of some assets, but could allow the potential freeing up of other sites. Indeed in 2011, the Department of Health suggested that there was over 430 hectares of surplus land within the NHS estate nationally[16]. There is room to explore the offer of public sector land free until the point of home sale as a means to encourage greater development.

Thirdly, new types of investment solutions and approaches will need to be developed and delivered if we are to meet housing demand. No one solution will fully meet this level of demand. London Councils is working to develop a range of investment options and sets out three viable proposals below, which could be implemented immediately.

The move towards greater self-financing through the abolition of the HRA subsidy arrangements has allowed local authorities a degree of freedom and flexibility, but more is needed to allow boroughs to raise additional capital.

The current system of borrowing against HRA assets is constrained by two rules; the Prudential Borrowing Framework, introduced in 2003 and secondly, by an aggregate cap on borrowing imposed by HM Treasury as part of its macro-economic management.

London Councils believes that the additional cap on use of HRA borrowing ability should be removed. This would release significant funds to build more homes in London. London Councils research suggests that, if the cap on borrowing were removed, this could release approximately £1.4 billion in additional investment and allow up to 54,000 affordable homes to be built in London.

Investment in housing infrastructure also has benefits for the wider economy. Every £1 invested generates £2.84 worth of economic growth. On this basis, the removal of the HRA debt cap and subsequent investment could add as much as 0.5 per cent to GDP, create 19,200 jobs and inject an extra £4.2 billion into the supply chain.

The removal of the debt cap can be aligned within existing frameworks and without undermining national finances. In our view, the Prudential Code, which allows an authority to borrow without needing approval from government, provided this is done within the parameters of a defined budgetary control regime, closely monitored by its auditors, delivers the confidence on debt that HM Treasury requires. Of course, any ask of government

15 Barriers to Housing Delivery – Report by Molior for the Mayor of London (2012)

16 https://www.gov.uk/government/news/government-strategy-for-surplus-land-published

focused on the ability to borrow raises questions about the government definition of public sector borrowing. We believe this should be reviewed in so far as it relates to local government investment and risk.

Should the government be minded to retain the borrowing cap, there are two other areas for change, which London Councils believes warrants further consideration.

Firstly, **the debt cap should at least be index-linked.** This arrangement would not increase borrowing in real terms, but would prevent borrowing capacity becoming diminished over time and would enable investment in existing stock to be brought forward freeing up investment later to potentially fund new homes.

Secondly, **the sector, as a whole, should be able to exploit unused borrowing headroom,** allowing a better alignment of borrowing capacity with investment need. A council with borrowing headroom could lend this to another council with insufficient borrowing capacity to meet its investment needs. This would not add to national debt levels, it would merely redistribute existing limits between local authorities. As within existing regulations, the receiving authority would need to be mindful of the Prudential Code while the incentive for the contributing authority would be subject to local negotiation.

Skills and Worklessness

As highlighted previously, the success of London's economy is critical to the health of the UK economy. In part, its success derives from high economic productivity and the highly skilled nature of London's workforce. 40 per cent of the working age population hold a Level 4 qualification (equivalent to a certificate of higher education) compared to 30 per cent across the UK[17]. London ranks as the leading European city for qualified staff - one of the four most important location factors for businesses[18].

Despite this, London has a lower employment rate than the UK average, and has done for the past three decades[19]. In the three months to December 2012, London's employment rate was 70.3 per cent, compared with a UK average of 71.5 per cent[20].

London's lower employment rates have been attributed to a range of factors including the fiercely competitive nature of London's labour market and the high skills requirements of the economy[21]. If Londoners are to benefit from the jobs available in the capital, individuals need in-demand skills and programmes of support that meet their individual needs.

Skills

The government spends over £4 billion a year on adult skills provision in England[22], with £550 million of this in London alone.[23] In this time of squeezed budgets and slow economic growth, it is critical that this investment generates the best possible return. Debate around how to achieve this has intensified following Lord Heseltine's review.

London Councils welcomes the government's commitment to the devolution of skills responsibility to London, but believes that it needs to be more ambitious to maximise the contribution of skills provision to economic growth.

17 The London Story - London Skills and Employment Observatory (2012)

18 European Cities Monitor - cited in The London Story - London Skills and Employment Observatory (2012)

19 The London Story - London Skills and Employment Observatory (2012)

20 London Skills and Employment Observatory London Data

21 Right Skills Right Jobs - Centre for Economic and Social Inclusion, Krasnowski & Vaid (2012)

22 Adult skills funding will be £4.1bn in 2013-14, with £3.6bn via the SFA (Skills Funding Statement, 2012-15)

23 £549m current spend and £56m capital spend in 2011-12, according to HM Treasury's 2012 PESA release

We want to see significant structural change in skills funding mechanisms in London and full devolution of funding (including funding directed to the Skills Funding Agency) to London. Only in this way can demand driven incentive models work in London.

In addition, skills needs cannot be addressed purely at a pan-London or LEP level. In order to maximise outcomes for businesses and individuals, skills needs must be addressed at the level of functional economic areas within London. We are discussing this issue with the Mayor of London.

Skills deficits are not only a problem for individuals seeking employment but also for employers struggling to fill vacancies with appropriately skilled workers. In 2009, employers reported that 24 per cent of vacancies in London were due to skills shortages[24]. In the same year, 17 per cent of London employers also identified skills gaps within their workforce, meaning employees were in place who were not fully proficient at their job[25]. Such skills gaps reduce both economic productivity and growth.

We believe that if we are to make the best use of skills provision, including further education, there is a greater need for direct strategic oversight and funding responsibility by the Mayor and London's boroughs. The LEP is setting a strategy for economic growth, while the annual funding of colleges and skills generally takes place outside these strategic economic goals and with no oversight by London's elected politicians or business leaders. We believe that higher levels of skills will be required to equip Londoners to meet the needs of the economy and current provision is not meeting this requirement.

Devolution of powers and funding would allow the delivery of a skills strategy and incentive mechanism for skills providers which directly relates to the economic priorities and skills needs identified by London's employers. An approach purely focused on sector skills risks ignoring the needs of real employers and real market conditions. Such a plan for devolution would match the aspirations set out in Lord Heseltine's recent report and enable a more flexible and nuanced approach to be developed to meet the skills requirements for London that is focused on job outcomes and progression for Londoners.

Within this broader framework of devolution, three further changes are needed:

1. Changes to incentives:
The skills system does not currently provide the right incentives to ensure providers offer the training that is most in-demand from employers locally or that will maximise outcomes for learners.

Firstly, skills providers are primarily funded according to the number of learners they attract and the number of qualifications those learners achieve[26]. This funding regime is too focused on process and merely serves to reward providers for having as many people as possible complete courses. The funding regime should be refocused to incentivise providers to focus on learners' development and outcomes. **A payment by results model should be introduced, with a greater proportion of funding dependent on learners finding a job or progressing in work or onto further training.** This will require the introduction of more sophisticated outcome tracking systems with capacity building support for providers. This should build on existing schemes whereby providers were given the flexibility to use 2.5 per cent of their 2011/12 Adult Skills Budget allocations to prepare for working with unemployed people and for the introduction of future job outcome funding[27].

---

24 National Employers Skills Survey (NESS), UKCES, 2010 (from London Skills and Employment Observatory Indicator)

25 London Skills and Employment Observatory London Data

26 Skills Funding Agency - A New Streamlined Funding System for Adult Skills (2013) Providers earn fees for each learner on each course in monthly instalments (i.e. funding follows learners for as long as they remain in learning) plus an achievement element of 20% if a learner achieves the course learning aim. SFA, A New Streamlined Funding System for Adult Skills, 2013

27 Research to Assess the Impact of Further Education Funding Changes Relating to Incentives for Training Unemployed Learners - Department for Business Innovation and Skills (2013)

Secondly, funding rates for courses are currently set centrally by the Skills Funding Agency (SFA). This means the level of financial incentive to offer a particular kind of course is the same across the country irrespective of the level of local demand. This approach risks the provision of skills failing to meet the economic demand for certain skills. To avoid this mismatch in provision, **there should be greater flexibility in funding rates at a local level to support increased funding for courses that meet locally identified skills needs.**

2. Improved information:
The current market-based skills system is not truly demand-led because it suffers from two major information failures.

Firstly, Labour Market Information (LMI) is not sufficiently timely, forward-looking or specific to sector or local needs[28]. This means that learners do not have enough information on which skills are in-demand to inform their course decisions. Equally, providers do not have enough information on employers' requirements to inform the design of their training offer. **LMI needs to be published more regularly, be more forward-looking, and be more granular,** providing information not only on national trends, but also on regional and local needs. In London, more analysis needs to be done to identify the needs across London's functional economic areas.

Secondly, the paucity of information on learner outcomes means that prospective learners cannot make informed decisions about where to study whilst employers can not accurately assess the quality of providers' offer. This lack of performance information is frustrating to those seeking to better align skills provision with employers' needs. **This information should be made publicly available in a consistent and comparable format,** to improve transparency around provider performance, and help inform employers' and potential learners' decisions.

3. Local Leadership:
The agreement of skills contracts and funding at a national level leaves local areas with limited levers to influence the design of skills provision to meet local needs. The government has started to take steps to address this – for example, supporting providers to meet locally assessed needs via the Innovation Code[29]. Much more needs to be done, however, to ensure that skills provision becomes truly responsive at a local level, particularly for a large and complex city like London. **Skills responsibility and funding should therefore be devolved to London so that groups of boroughs can play a strategic brokerage role**, working in partnership with businesses and providers, to ensure skills provision is responsive to the needs of London's functional economic areas. London boroughs are well placed to take on this role because of their unique understanding of their functional economic areas, their strong relationships with key businesses, providers and communities, and the valuable work they are already doing with those partners to align provision with need.

Employment Support

The link between the provision of skills and wider employment support is crucial. The government has made moving unemployed citizens into work a priority. Its policy is based on a clear expectation that there should be a step change in the delivery of Welfare to Work support, with much greater emphasis on tailored personal support and results. London Councils supports these principles. At present, there is significant investment in employment support in London – close to £115 million is spent per annum. But the current approach is too centralist.

28 The role of local enterprise partnerships in tackling skills needs - 157 Group (2011)

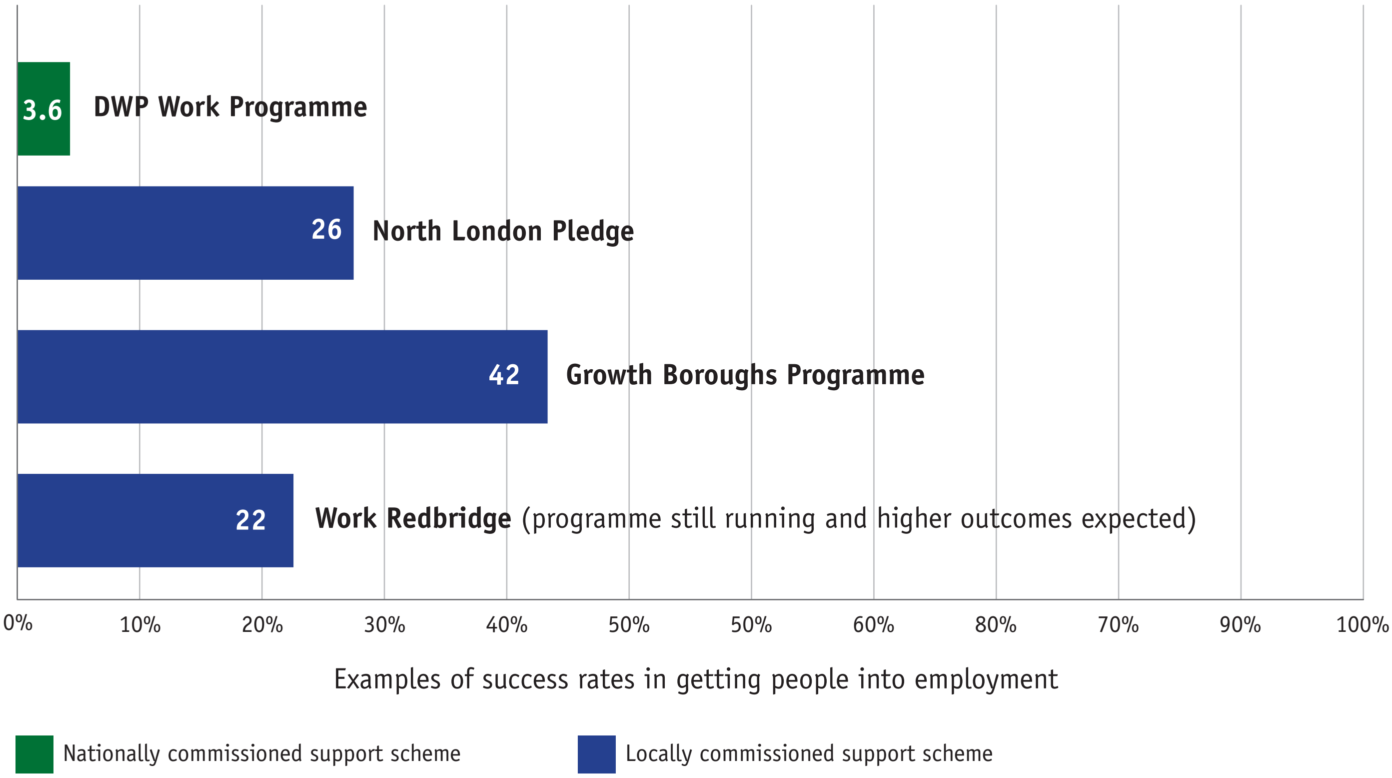
29 The Innovation Code, introduced in April 2012, is a mechanism designed to help skills providers respond quickly to local employers' needs by enrolling learners on courses that do not yet lead to a Qualifications and Credit Framework (QCF) qualification, while they are simultaneously developed for the QCF (SFA, 2012)

In London, close to £78 million in employment support is commissioned at a national level through at least seven different programmes[30]. This means that around £8 of every £10 spent on employment support in London is designed and delivered according to national guidelines. Commissioning at a distance fails to build on local knowledge, connections and skills and such a centralist approach risks wasting significant sums of public money, without effectively delivering badly needed services, particularly for those at some distance from employability.

Experience supports the effective role local authorities can play[31].

- The North London Pledge got 26 per cent of referred clients into work for six months or more. In comparison DWP's work programme, working with a similar client group across a similar period of time, achieved only 3.6 per cent of referred clients into work for six months or more.
- A programme delivered by Growth Boroughs[32] focused on people who traditionally have poor or low levels of engagement with existing welfare to work or Jobcentre Plus support over a period of more than two years. It helped over 480 referred clients into work for six months or more with a referral rate of 42 per cent.
- Work Redbridge's flexible support fund is targeting four separate groups[33] of people and to date, has secured a referral rate of 22 per cent.

Figure 3: **National v local employment support**



30 The Work Progamme, Job Centre Plus, Work Choice, DWP ESP Families with multiple problems, New Enterprise Allowance Scheme, ESF National Offender Management Service, Youth Contract

31 Borough schemes are voluntary and the Work Programme mandatory, but the comparison is still valid. Voluntary schemes will have a higher risk of drop-out from participants.

32 Greenwich, Hackney, Newham, Tower Hamlets, Waltham Forest

33 People in affordable housing, young people 18-24, 50+ residents and lone parents

London Councils believes that DWP should localise all future employment support programmes. The funding for future DWP employment programmes should be devolved in a 'single pot' to boroughs, or groups of boroughs, to work in local partnerships to commission locally relevant employment support. Boroughs should be the responsible agency for this funding.

Of course, there may well be a series of immediate and interim steps that would facilitate the move to this ideal model in which funding and spending decisions are reversed so that £8 in every £10 of employment support is delivered and commissioned locally. The London Councils publication, *'Getting London Working'*[34] sets out some clear steps for moving towards this model, namely:

1. DWP should reconsider data sharing rules regarding employment provision; specifically management information that aids the design and delivery of employment support
2. BIS, GLA and DWP should provide a commitment to meaningful local engagement on the design of 2015 – 2020 European Social Fund (ESF), working with London Councils to develop an agreed London-wide ESF Framework to set priorities for all ESF programmes.
3. Prime providers should sign-up to London Councils' suggested minimum engagement levels and should be encouraged by DWP to do so.
4. DWP should devolve 'DWP ESF Families with Multiple Problems' underspend to groups of boroughs, allowing this activity to be much better aligned with local support for troubled families.
5. Likewise, future 'families' programmes should be designed and delivered locally. Boroughs are likely to be already engaged with these families and have the expertise to best support them.
6. DWP should hold failing providers to account if mainstream programmes do not meet the department's minimum performance standards in the future. We would encourage DWP to think radically and consider devolving these contracts to groups of boroughs or co-commission new contracts jointly with boroughs.
7. JCP should devolve or co-commission the flexible support fund with London boroughs to ensure the best fit with local strategic opportunities and need
8. The Service Level Agreements being drawn up between boroughs and JCP should be ambitious and outcome driven.
9. Design local provision for Work Programme Leavers that is integrated with local strategies around employment support.

Local Delivery

Within both the provision of skills and employment support, the devolution of both powers and resources to boroughs would not only allow a flexible and responsive local approach tailored to the needs of individuals, but would also enable local authorities to wrap additional services around the needs of those seeking work. Boroughs lead on the provision of child care, drug and alcohol strategies and commission volunteering projects. The ability to connect these services and budget regimes together will help people access work and offers the best prospect of tailoring approaches to the needs of individual clients. At a time when personalisation is increasingly the focus for the provision of adult and children's care services, it remains an anomaly that a similar approach is not adopted in preparing people for work.

34 http://www.londoncouncils.gov.uk/policylobbying/economicdevelopment/increasingemployment/employmentreport.htm

Of course, London's regional profile can mask considerable variations at the local level including significant variation in employment rates, business characteristics and skills needs between and even within sub-regions and boroughs. How these services are designed and delivered will need to reflect meaningful functional economic areas and this is likely to be at the level of boroughs or groups of boroughs.

Transport Investment

In order to pursue an active and vibrant growth strategy, government should devolve greater decision-making power over transport investment. **London Councils believes that local authorities should have greater authority to act as commissioners in the development of transport schemes** which can unlock small sites and provide the connectivity we believe is vital. Devolution of this kind would allow greater alignment of investment with local infrastructure and growth priorities and deliver at a faster pace than currently planned for – leading to faster economic growth.

It is recognised that Transport for London (TfL) will still need to lead on many of the major infrastructure projects, but there seems no reason why this should remain a monopoly. Canary Wharf has recently acted as client for the Isle of Dogs Cross Rail Station and the Royal Borough of Greenwich and Berkeley Homes have had to develop the financial package to secure a Cross Rail Station at Woolwich.

We would like to see boroughs freed to do more. This will become all the more important if the decision is made to create a new airport hub. A new hub will potentially require additional road and public transport capacity to connect it to the heart of the capital. The danger is this will create a bottleneck in commissioning capacity within London and mean other important strategic and local schemes are pushed further back at precisely the time London is expanding more rapidly than at any time in living memory. The creation of more commissioning capacity by using boroughs is crucial to meet existing and future demand.

Local Authority Fees and Charges

There are many services that local government has a statutory duty to deliver, some of which can attract a service charge or fee. In many key areas, these are heavily proscribed by central government and are either capped or set centrally with little or no scope for local discretion.

London Councils believes that local authorities should have the freedom to set their own level of fees and charges to recover the full cost of delivering the service, particularly in the areas of planning, building control, land searches and licensing.

Current arrangements do not reflect variations in local circumstances and market conditions. They are contrary to the spirit of localism, and the principle that decisions should be taken at the lowest possible level, by elected members who are accountable to the public.

Devolving greater power around fees and charges would not only increase local accountability and transparency, but would prevent services operating at a financial loss, subsidising business and from negatively impacting on local taxpayers. The power to set more locally responsive fee levels, would also allow local authorities to work more effectively with businesses and help focus efforts to drive growth.

In 2011-12, local authorities in London spent around £433 million on licensing and wider planning and development services. Against this cost, approximately £126 million was collected in sales, fees and charges – just under a third of the overall gross cost[35].

35 Local authority Revenue Outturn forms 2011-12 - Department for Communities and Local Government

In times of reduced public funding and acute pressures within areas such as adult social care and children's safeguarding, more must be done to support London local government to prioritise and deliver 'pro-growth' services. And that is why local authorities must have the freedom to set the level of fees locally and recover their costs.

Planning applications are a particularly illustrative example of how the current system is failing to support and incentivise London local government to promote growth. As outlined above, local authorities should have greater control over some of the strategic levers to support private developers in delivering more homes in London. Currently fees are set nationally, according to national averages. In England, these fees broadly cover 90 per cent of an average planning department's costs. London boroughs face higher costs than the national average, but the national framework fails to fully reflect these regional variations. In some cases, a borough will only be able to recover between 40-70 per cent of the cost of a planning application.

Combined with a relatively higher number of applications, London boroughs are being financially penalised twice for promoting economic growth – firstly by not being able to cover the costs of processing an individual application and secondly by processing more planning applications than most other regions and thus incurring more individual losses. In the current financial environment, this position is unsustainable.

London Councils believes that local authorities should be able to set planning fees at market rates. This would provide a considerable financial incentive for local authorities to deliver a speedy and high quality planning service while also establishing firmer expectations on behalf of developers.

Health and Social Care Integration

In London, £21.6 billion[36] was spent on health and social care in 2011-12. Of this close to 80 per cent (£17.2 billion) was spent on health.

The health and wellbeing of its citizens is critical to enabling London to be a vibrant and successful city, and to support our aspirations for improving the life chances of individuals and the economic growth of the capital. London boroughs have welcomed the new public health responsibilities devolved to them and are already working hard to deliver some of the benefits from having responsibility for these functions at a local level, including being able to be more responsive to individual's and communities' needs.

Public health services play a vital role in improving health and wellbeing and thus in reducing pressures and costs on health services. Investing in public health is therefore an important means of helping to manage rising cost pressures on health and social services, as well helping people to improve their economic and life chances.

It was helpful to have two year financial allocations (2013-14 & 2014-15) for public health. However, London boroughs are still concerned that the total amount of public health funding available does not clearly relate to overall needs and costs and that the formula used to determine individual allocations, being so significantly based on mortality rates, is not realistic.

London Councils believes the government should commit to increase the total amount of ring-fenced grant to support more preventive work through public health, should ensure that the ACRA review delivers a public health funding formula that better reflects the range of public health needs and costs, and should commit to minimum three year funding settlements for public health to enable clear planning and the most efficient commissioning of services.

---

36 Public Expenditure Statistical Analyses 2012 - HM Treasury

Adult social care spend accounts for a significant share of local authority expenditure in London and this is forecast to rise dramatically, because of a combination of pressures from growing populations of older people and adults with significant learning or physical disabilities. London Councils estimates that London boroughs will collectively face a £907 million funding gap by 2017-18. While boroughs have been successful in driving cost reductions and efficiencies whilst protecting key services for vulnerable people, over recent years, the further potential of such approaches is very limited.

Boroughs will continue to explore options for efficiencies – particularly through working with the NHS to improve the integration of health and care services. However, to support and enable this, **London Councils believes the government needs to consider the total health and social care budgets together in its spending plans and enable easier shifting of money between the two to incentivise and support more joined up, person-centric approaches to health and wellbeing.**

Devolution and Leadership of Public Services

London Councils welcomes recent attempts by government to drive growth and competitiveness via devolution, specifically through the establishment of City Deals and, now, wider county deals.

As outlined above, London Councils believes that London boroughs have a key role in supporting economic growth. We believe that boroughs or groupings of boroughs should have the power and freedom to tailor activities and interventions across particular geographies that are most likely to boost jobs, skills, competitiveness, infrastructure and homes – all within a more autonomous local government finance system.

Such an approach would align with the developing thinking of the London Finance Commission[37].

While, formally, the City Deal approach may not apply in London, we believe that London government should have an overall framework that allows those boroughs and groups of boroughs, in negotiation with the Mayor of London, to move in this direction should they wish to do so.

This approach was supported in the recent report of the West End Commission, chaired by Sir Howard Bernstein[38].

Of course, we recognise that there is a strong need for robust governance arrangements and it will be important to reflect the respective roles and responsibilities of the Mayor of London, the London LEP, the wider GLA family and the London boroughs in any such framework.

The detail of this wider proposition is one to which London boroughs and London government will wish to return in the light of the specific actions taking forward the Heseltine review and other related work that emerge from the Spending Round announcement.

37 http://www.london.gov.uk/priorities/business-economy/championing-london/london-finance-commission
38 http://www.westendcommission.com/Report.html

London Councils
59½ Southwark Street
London SE1 0AL
www.londoncouncils.gov.uk
020 7934 9813

publication date: May 2013